Market Commentary Blog

Cash Flow *and Carey*

Robert Carey, CFA
Chief Market Strategist

Peter Leonteos
Market Strategist

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Consumer Checkup: Aisle 7

Consumer Stocks vs. the S&P 500 Index

(YTD, 1-Year and Average Annualized Total Returns thru 9/13/24)

Period	S&P 500 Consumer Discretionary Index	S&P 500 Consumer Staples Index	50% Disc./ 50% Staples	S&P 500 Index
YTD	9.74%	19.82%	14.78%	19.13%
1-Year	14.07%	21.92%	18.00%	27.79%
3-Year	2.71%	9.20%	5.96%	9.65%
5-Year	10.74%	10.48%	10.61%	15.15%
10-Year	12.37%	9.82%	11.10%	13.00%
15-Year	15.61%	11.70%	13.66%	14.04%

Source: Bloomberg. 50%/50% combination reflects daily rebalancing. **Past Performance is no guarantee of future results.**

View from the Observation Deck

Today's post compares the performance of consumer stocks to the broader market, as measured by the S&P 500 Index, over an extended period. Given that consumer spending has historically accounted for roughly two-thirds of U.S. Gross Domestic Product, we think the performance of consumer stocks can offer insight into potential trends in the broader economy.

The S&P 500 Consumer Discretionary and Consumer Staples Indices increased by 14.07% and 21.92% (total return) over the trailing 12-months ended 9/13.

The last time we posted on this topic (click here), consumer staples stocks had lagged consumer discretionary companies by a significant margin over the trailing 12-month period. That is no longer the case. We think the year-to-date (YTD) and 1-year performance margins between the S&P 500 Consumer Discretionary and Consumer Staples Indices in the table can be explained, in part, by the increasing possibility of a near term recession. Just after equity markets began digesting July's lackluster manufacturing and employment data, August's report from the Bureau of Labor Statistics revealed that the U.S. added 818,000 fewer jobs than originally forecast over the 12-month period from April 2023 to March 2024, likely paving the way for the Federal Reserve to cut rates at its meeting this week.

Just how healthy is the U.S. consumer?

Real consumer discretionary spending stood at $6.51 trillion YTD thru July, an increase of 3.0% from $6.32 trillion over the same period last year. Consumer sentiment remains strong. Preliminary results from the University of Michigan revealed that consumer sentiment increased by 1.8% year-over-year in September and remains nearly 40% higher than its most recent low set in June 2022. While discretionary spending and consumer sentiment are rising, so is U.S. household debt. The Federal Reserve Bank of New York reported that aggregate household debt balances increased by $109 billion in Q2'24, to $17.80 trillion. Delinquencies are rising. The share of credit card balances that were seriously delinquent (90+ days) stood at 10.9% in Q2'24, its highest level since Q1'12. As a further pressure, savings rates are dwindling. The U.S. personal savings rate stood at 2.9% in July 2024, down from 4.4% in July 2023.

Takeaway

Many investors view consumer staples stocks as a refuge during periods of heightened volatility. From our perspective, weaker than expected economic data combined with expanding consumer debt balances, rising delinquency rates, and plummeting personal savings rates may explain the widening performance differential between consumer staples and discretionary stocks presented in today's table. That said, investors would be well-served to keep the full picture in mind. The Federal Reserve reported that U.S. household net worth stood at a record $163.8 trillion at the end of Q2'24, according to Bloomberg. Additionally, inflation, as measured by the 12-month rate of change in the consumer price index stood at 2.5% in August, down significantly from its most recent high of 9.1% in June 2022. Disinflation has been a welcome relief to many Americans who, stretched thin by rising interest rates, plummeting savings, and elevated credit card debt, are a significant driver of economic growth. Should the consumer remain healthy, the possibility of the U.S. experiencing a notable recession could be diminished. Stay tuned!